



THE SECRETARY OF VETERANS AFFAIRS  
WASHINGTON

November 16, 2015

To the President of the United States, President of the Senate, Speaker of the House of Representatives, and the President Pro Tempore of the Senate:

This report highlights the Department of Veterans Affairs' (VA) accomplishments and challenges in providing health care and benefits delivery to our Veterans according to our mission as provided by President Lincoln: "To care for him who shall have borne the battle, and for his widow and his orphan." To accomplish this mission, we provide timely access to earned health care and benefits for millions of Veterans. It is a responsibility that we do not take lightly.

In the last year, VA has been capturing lessons learned as we continued to increase options to Veterans in pursuing health services through VA facilities and care in the community. VA has increased its capacity to serve Veterans' health-care needs by focusing on four pillars: staffing, space, productivity, and VA community care. At VA facilities, we have increased net staffing and the number of primary care exam rooms. We have extended the number of clinic hours to nights and weekends. We also leveraged care in the community options for Veterans, including those pertaining to the Choice Act.

Even as we increase access and transform, important challenges remain, and there will be more in the future as Veteran demographics evolve. Health services and benefits sought by Veterans often peak years after conflicts end, and the demands increase as Veterans age and exit the workforce. Looking forward, the VA Budget and Choice Improvement Act codified the Department's initiative to develop a plan to consolidate all non-Department provider programs by establishing a single new program for furnishing hospital care and medical services to enrolled Veterans. We are committed to simplifying the complex array of programs through which VA delivers care in the community.

Additionally, we are transforming our way of doing business by putting the Veteran first in all we do through a new overarching initiative we call MyVA. The MyVA vision is to provide a seamless, unified Veteran Experience across the entire organization and throughout the country. Our five initial priorities are:

- Improving the Veteran experience;
- Improving the employee experience;
- Achieving support services excellence;
- Establishing a culture of continuous performance improvement; and
- Enhancing strategic partnerships.

CliftonLarsonAllen (CLA), an independent public accounting firm reviewed our financial statements and provided an unmodified opinion for the 17<sup>th</sup> consecutive year, thus demonstrating our successful efforts to ensure that taxpayer resources are used effectively and efficiently in support of Veterans and their families. Although VA received an unmodified audit opinion, we must continue to improve our financial management in fiscal year (FY) 2016, as CLA has cited VA with four material weaknesses and two significant deficiencies.

This year's audit continued to identify a repeat material weakness related to information technology systems configuration management controls, access controls, security management, and systems contingency planning. In July 2015, the new Chief Information Officer (CIO) established an Enterprise Cybersecurity Strategy Team to review VA's cybersecurity posture. The team delivered a strategy and implementation plan in late September 2015 that will transform CIO's focus on cybersecurity with a goal of resolving the material weakness in 2016.

VA received two related material weaknesses, one pertaining to procurement, undelivered orders, and reconciliation processes and the other centered on care in the community transaction processing and reconciliation processes. Issues found related to untimely recording of obligations in the accounting system and obligations of funds without valid Federal Acquisition Regulation, and the lack of reconciliation processes between referrals for Veterans receiving care and related transactions recorded in the accounting system. VA is currently seeking a legislative proposal to better facilitate care in the community. In FY 2016, VA is also focusing on reforming and improving how we purchase care in the community but challenges will remain in the absence of legislative change.

Additionally, VA received a material weakness on financial reporting because our antiquated accounting system lacks current Federal functionalities and controls. VA plans to replace its accounting system and will embark on a multi-year initiative to migrate to a Federal shared service provider starting in FY 2016. In the meantime, VA will continue to improve our business processes and reliability of our data.

VA received two significant deficiencies. The first addresses the accrual process for financial reporting. This finding occurred when estimated expenses did not align with the actual payments. In FY 2016, VA plans to work with program offices to perform analysis of existing processes, review historical data, and evaluate the timing of services received and payments processed.

The second significant deficiency related to the Chief Financial Officer organizational structure. The current structure is fragmented and results in ineffective financial management systems and controls. VA will perform an assessment of the current reporting structure by the end of second quarter FY 2016, determine the need for reorganization and/or realignment, and provide recommendations for the optimal solution to senior leadership.

In addition to the material weaknesses and significant deficiencies, VA experienced a dramatic increase in our improper payment rate in FY 2015. This was due to the VA Office of Inspector General citing VA for inconsistent compliance with Federal laws in providing care in the community to Veterans in the May 2015 Improper Payments Elimination and

Recovery Act compliance review. This is a departure from how VA has historically reported the care in the community payments. In the past, the payments were deemed proper if they were made in accordance with negotiated prices/regulation and paid to the correct party who provided the services requested. These instances were cited even though VA did not waste taxpayer money by paying too much for services or pay the wrong parties but instead, provided Veterans access to health care when it could not be provided at a VA facility. We are committed to stopping inconsistent compliance with laws and regulations and reduce the improper payment rate through legislative proposals and business process re-engineering in FY 2016.

Based on internal evaluations, I can provide reasonable assurance that the financial and performance information contained in this report is complete, reliable and accurately describes VA results for FY 2015. The Agency Performance Plan and Report, due in February 2016, will contain more detail on VA's performance measures.

Caring for our Nation's Veterans is the highest honor and privilege for the men and women who serve VA. I thank you for your consideration of our annual report and appreciate your continued support of our mission.

Sincerely,

A handwritten signature in blue ink, appearing to read "Robert A. McDonald", is centered below the word "Sincerely,".

Robert A. McDonald

Enclosure